

106TH CONGRESS  
2D SESSION

# H. R. 5176

To amend the Internal Revenue Code of 1986 to provide incentives to introduce new technologies to reduce energy consumption in buildings.

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## IN THE HOUSE OF REPRESENTATIVES

SEPTEMBER 14, 2000

Mr. BILBRAY introduced the following bill; which was referred to the Committee on Ways and Means

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## A BILL

To amend the Internal Revenue Code of 1986 to provide incentives to introduce new technologies to reduce energy consumption in buildings.

1       *Be it enacted by the Senate and House of Representa-*  
2       *tives of the United States of America in Congress assembled,*

3       **SECTION 1. SHORT TITLE.**

4       This Act may be cited as the “Energy Efficient  
5 Buildings Incentives Act”.

6       **SEC. 2. INCENTIVE FOR CERTAIN ENERGY EFFICIENT**  
7       **PROPERTY USED IN BUSINESS.**

8       (a) IN GENERAL.—Part VI of subchapter B of chap-  
9       ter 1 of the Internal Revenue Code of 1986 is amended  
10      by adding at the end the following new section:

1 **“SEC. 199. ENERGY PROPERTY DEDUCTION.**

2 “(a) IN GENERAL.—There shall be allowed as a de-  
3 duction for the taxable year an amount equal to the sum  
4 of—

5 “(1) the amount determined under subsection  
6 (b) for each energy property of the taxpayer placed  
7 in service during such taxable year, and

8 “(2) the energy efficient commercial building  
9 amount determined under subsection (f).

10 “(b) AMOUNT FOR ENERGY PROPERTY.—

11 “(1) IN GENERAL.—The amount determined  
12 under this subsection for the taxable year for each  
13 item of energy property shall equal the amount spec-  
14 ified for such property in the following table:

Description of property:	Allowable amount is:
Elected solar hot water property .....	\$1.00 per each kwh/year of sav- ings.
Photovoltaic property .....	\$4.50 per peak watt.
Natural gas heat pump described in subsection (d)(2)(C).	\$3,000.
Tier 2 energy-efficient building property (other than a natural gas heat pump).	\$1,500.
Tier 1 energy-efficient building property .....	\$750.

15 “(2) ELECTED SOLAR HOT WATER PROP-  
16 erty.—In the case of elected solar hot water prop-  
17 erty, the taxpayer may elect to substitute ‘\$21 per  
18 annual Therm of natural gas savings’ for ‘\$1.00 per

1 each kwh/year of savings’ in the table contained in  
2 paragraph (1).

3 “(c) ENERGY PROPERTY DEFINED.—

4 “(1) IN GENERAL.—For purposes of this part,  
5 the term ‘energy property’ means any property—

6 “(A) which is—

7 “(i) solar energy property,

8 “(ii) Tier 2 energy-efficient building  
9 property, or

10 “(iii) Tier 1 energy-efficient building  
11 property,

12 “(B)(i) the construction, reconstruction, or  
13 erection of which is completed by the taxpayer,  
14 or

15 “(ii) which is acquired by the taxpayer if  
16 the original use of such property commences  
17 with the taxpayer,

18 “(C) with respect to which depreciation (or  
19 amortization in lieu of depreciation) is allow-  
20 able, and

21 “(D) which meets the performance and  
22 quality standards, and the certification require-  
23 ments (if any), which—

24 “(i) have been prescribed by the Sec-  
25 retary by regulations (after consultation

1 with the Secretary of Energy or the Ad-  
2 ministrator of the Environmental Protec-  
3 tion Agency, as appropriate), and

4 “(ii) are in effect at the time of the  
5 acquisition of the property.

6 “(2) SOLAR ENERGY PROPERTY.—In the case  
7 of—

8 “(A) elected solar hot water property, the  
9 regulations under paragraph (1)(D) shall be  
10 based on the OG–300 Standard for the Annual  
11 Performance of OG–300 Certified Systems of  
12 the Solar Rating and Certification Corporation,  
13 and

14 “(B) photovoltaics, such regulations shall  
15 be based on the ASTM Standard E 1036 and  
16 E 1036M–96 Standard Test Method for Elec-  
17 tric Performance of Nonconcentrator Terres-  
18 trial Photovoltaic Modules and Arrays Using  
19 Reference Cells,

20 to the extent the Secretary determines such stand-  
21 ards carry out the purposes of this section.

22 “(3) EXCEPTION.—Such term shall not include  
23 any property which is public utility property (as de-  
24 fined in section 46(f)(5) as in effect on the day be-

1       fore the date of the enactment of the Revenue Rec-  
 2       onciliation Act of 1990).

3       “(d) DEFINITIONS RELATING TO TYPES OF ENERGY  
 4       PROPERTY.—For purposes of this section—

5               “(1) SOLAR ENERGY PROPERTY.—

6                       “(A) IN GENERAL.—The term ‘solar en-  
 7                       ergy property’ means equipment which uses  
 8                       solar energy—

9                               “(i) to generate electricity, or

10                              “(ii) to provide hot water for use in a  
 11                              structure.

12                       “(B) ELECTED SOLAR HOT WATER PROP-  
 13                       PERTY.—

14                              “(i) IN GENERAL.—The term ‘elected  
 15                              solar hot water property’ means property  
 16                              which is solar energy property by reason of  
 17                              subparagraph (A)(ii) and for which an  
 18                              election under this subparagraph is in ef-  
 19                              fect.

20                              “(ii) ELECTION.—For purposes of  
 21                              clause (i), a taxpayer may elect to treat  
 22                              property described in clause (i) as elected  
 23                              solar hot water property.

24                       “(C) PHOTOVOLTAIC PROPERTY.—The  
 25                       term ‘photovoltaic property’ means solar energy

property which uses a solar photovoltaic process to generate electricity.

“(D) SWIMMING POOLS, ETC., USED AS STORAGE MEDIUM.—The term ‘solar energy property’ shall not include a swimming pool, hot tub, or any other energy storage medium which has a function other than the function of such storage.

“(E) SOLAR PANELS.—No solar panel or other property installed as a roof (or portion thereof) shall fail to be treated as solar energy property solely because it constitutes a structural component of the structure on which it is installed.

“(2) TIER 2 ENERGY-EFFICIENT BUILDING PROPERTY.—The term ‘Tier 2 energy-efficient building property’ means—

“(A) an electric heat pump hot water heater that yields an energy factor of 1.7 or greater,

“(B) an electric heat pump that has a heating system performance factor (HSPF) of 9 or greater and a cooling seasonal energy efficiency ratio (SEER) of 15 or greater and a peak energy efficiency ratio (EER) of 12.5 or greater,

1           “(C) a natural gas heat pump that has a  
2           coefficient of performance of not less than 1.25  
3           for heating and not less than 0.70 for cooling,

4           “(D) a central air conditioner that has a  
5           cooling seasonal energy efficiency ratio (SEER)  
6           of 15 or greater and a peak EER of 12.5 or  
7           greater, and

8           “(E) an advanced natural gas water heater  
9           that has an energy factor of at least 0.80.

10          “(3) TIER 1 ENERGY-EFFICIENT BUILDING  
11          PROPERTY.—The term ‘Tier 1 energy-efficient build-  
12          ing property’ means—

13               “(A) an electric heat pump that has a  
14               heating system performance factor (HSPF) of  
15               7.5 or greater and a cooling seasonal energy ef-  
16               ficiency ratio (SEER) of 13.5 or greater and a  
17               peak energy efficiency ratio (EER) of 11.5 or  
18               greater,

19               “(B) a central air conditioner that has a  
20               cooling seasonal energy efficiency ratio (SEER)  
21               of 13.5 or greater and a peak EER of 11.5 or  
22               greater, and

23               “(C) an advanced natural gas water heater  
24               that has an energy factor of at least 0.65.

1       “(e) SPECIAL RULES.—For purposes of this  
2 section—

3               “(1) BASIS REDUCTION.—For purposes of this  
4 subtitle, if a deduction is allowed under this section  
5 with respect to any energy property, the basis of  
6 such property shall be reduced by the amount of the  
7 deduction so allowed.

8               “(2) DOUBLE BENEFIT.—Property which  
9 would, but for this paragraph, be eligible for deduc-  
10 tion under more than one provision of this section  
11 shall be eligible only under one such provision, the  
12 provision specified by the taxpayer.

13       “(f) ENERGY EFFICIENT COMMERCIAL BUILDING  
14 PROPERTY DEDUCTION.—

15               “(1) DEDUCTION ALLOWED.—For purposes of  
16 subsection (a)—

17                       “(A) IN GENERAL.—The energy efficient  
18 commercial building property deduction deter-  
19 mined under this subsection is an amount equal  
20 to energy efficient commercial building property  
21 expenditures made by a taxpayer for the tax-  
22 able year.

23                       “(B) MAXIMUM AMOUNT OF DEDUC-  
24 TION.—The amount of energy efficient commer-  
25 cial building property expenditures taken into

1 account under subparagraph (A) shall not ex-  
2 ceed an amount equal to the product of—

3 “(i) \$2.25, and

4 “(ii) the square footage of the build-  
5 ing with respect to which the expenditures  
6 are made.

7 “(C) YEAR DEDUCTION ALLOWED.—The  
8 deduction under subparagraph (A) shall be al-  
9 lowed in the taxable year in which the construc-  
10 tion of the building is completed.

11 “(2) ENERGY EFFICIENT COMMERCIAL BUILD-  
12 ING PROPERTY EXPENDITURES.—For purposes of  
13 this subsection, the term ‘energy efficient commer-  
14 cial building property expenditures’ means an  
15 amount paid or incurred for energy efficient com-  
16 mercial building property installed on or in connec-  
17 tion with new construction or reconstruction of  
18 property—

19 “(A) for which depreciation is allowable  
20 under section 167,

21 “(B) which is located in the United States,  
22 and

23 “(C) the construction or erection of which  
24 is completed by the taxpayer.

1       Such property includes all residential rental prop-  
2       erty, including low-rise multifamily structures and  
3       single family housing property which is not within  
4       the scope of Standard 90.1–1999 (described in para-  
5       graph (3)). Such term includes expenditures for  
6       labor costs properly allocable to the onsite prepara-  
7       tion, assembly, or original installation of the prop-  
8       erty.

9               “(3) ENERGY EFFICIENT COMMERCIAL BUILD-  
10       ING PROPERTY.—For purposes of paragraph (2)—

11               “(A) IN GENERAL.—The term ‘energy effi-  
12       cient commercial building property’ means any  
13       property which reduces total annual energy and  
14       power costs with respect to the lighting, heat-  
15       ing, cooling, ventilation, and hot water supply  
16       systems of the building by 50 percent or more  
17       in comparison to a reference building which  
18       meets the requirements of Standard 90.1–1999  
19       of the American Society of Heating, Refrig-  
20       erating, and Air Conditioning Engineers and  
21       the Illuminating Engineering Society of North  
22       America using methods of calculation under  
23       subparagraph (B) and certified by qualified  
24       professionals as provided under paragraph (6).

1           “(B) METHODS OF CALCULATION.—The  
2           Secretary, in consultation with the Secretary of  
3           Energy, shall promulgate regulations which de-  
4           scribe in detail methods for calculating and  
5           verifying energy and power consumption and  
6           cost, taking into consideration the provisions of  
7           the 1998 California Nonresidential ACM Man-  
8           ual. These procedures shall meet the following  
9           requirements:

10                   “(i) In calculating tradeoffs and en-  
11                   ergy performance, the regulations shall  
12                   prescribe the costs per unit of energy and  
13                   power, such as kilowatt hour, kilowatt, gal-  
14                   lon of fuel oil, and cubic foot or Btu of  
15                   natural gas, which may be dependent on  
16                   time of usage.

17                   “(ii) The calculational methodology  
18                   shall require that compliance be dem-  
19                   onstrated for a whole building. If some sys-  
20                   tems of the building, such as lighting, are  
21                   designed later than other systems of the  
22                   building, the method shall provide that  
23                   either—

24                           “(I) the expenses taken into ac-  
25                           count under paragraph (1) shall not

1 occur until the date designs for all en-  
2 ergy-using systems of the building are  
3 completed,

4 “(II) the energy performance of  
5 all systems and components not yet  
6 designed shall be assumed to comply  
7 minimally with the requirements of  
8 such Standard 90.1–1999, or

9 “(III) the expenses taken into ac-  
10 count under paragraph (1) shall be a  
11 fraction of such expenses based on the  
12 performance of less than all energy-  
13 using systems in accordance with  
14 clause (iii).

15 “(iii) The expenditures in connection  
16 with the design of subsystems in the build-  
17 ing, such as the envelope, the heating, ven-  
18 tilation, air conditioning and water heating  
19 system, and the lighting system shall be al-  
20 located to the appropriate building sub-  
21 system based on system-specific energy  
22 cost savings targets in regulations promul-  
23 gated by the Secretary of Energy which  
24 are equivalent, using the calculation meth-

odology, to the whole building requirement of 50 percent savings.

“(iv) The calculational methods under this subparagraph need not comply fully with section 11 of such Standard 90.1–1999.

“(v) The calculational methods shall be fuel neutral, such that the same energy efficiency features shall qualify a building for the deduction under this subsection regardless of whether the heating source is a gas or oil furnace or an electric heat pump.

“(vi) The calculational methods shall provide appropriate calculated energy savings for design methods and technologies not otherwise credited in either such Standard 90.1–1999 or in the 1998 California Nonresidential ACM Manual, including the following:

“(I) Natural ventilation.

“(II) Evaporative cooling.

“(III) Automatic lighting controls such as occupancy sensors, photocells, and timeclocks.

“(IV) Daylighting.

1           “(V) Designs utilizing semi-con-  
2           ditioned spaces that maintain ade-  
3           quate comfort conditions without air  
4           conditioning or without heating.

5           “(VI) Improved fan system effi-  
6           ciency, including reductions in static  
7           pressure.

8           “(VII) Advanced unloading  
9           mechanisms for mechanical cooling,  
10          such as multiple or variable speed  
11          compressors.

12          “(VIII) The calculational meth-  
13          ods may take into account the extent  
14          of commissioning in the building, and  
15          allow the taxpayer to take into ac-  
16          count measured performance that ex-  
17          ceeds typical performance.

18          “(C) COMPUTER SOFTWARE.—

19               “(i) IN GENERAL.—Any calculation  
20               under this paragraph shall be prepared by  
21               qualified computer software.

22               “(ii) QUALIFIED COMPUTER SOFT-  
23               WARE.—For purposes of this subpara-  
24               graph, the term ‘qualified computer soft-  
25               ware’ means software—

1 “(I) for which the software de-  
2 signer has certified that the software  
3 meets all procedures and detailed  
4 methods for calculating energy and  
5 power consumption and costs as re-  
6 quired by the Secretary,

7 “(II) which provides such forms  
8 as required to be filed by the Sec-  
9 retary in connection with energy effi-  
10 ciency of property and the deduction  
11 allowed under this subsection, and

12 “(III) which provides a notice  
13 form which summarizes the energy ef-  
14 ficiency features of the building and  
15 its projected annual energy costs.

16 “(4) ALLOCATION OF DEDUCTION FOR PUBLIC  
17 PROPERTY.—In the case of energy efficient commer-  
18 cial building property installed on or in public prop-  
19 erty, the Secretary shall promulgate a regulation to  
20 allow the allocation of the deduction to the person  
21 primarily responsible for designing the property in  
22 lieu of the public entity which is the owner of such  
23 property. Such person shall be treated as the tax  
24 payer for purposes of this subsection.

1           “(5) NOTICE TO OWNER.—The qualified indi-  
2       vidual shall provide an explanation to the owner of  
3       the building regarding the energy efficiency features  
4       of the building and its projected annual energy costs  
5       as provided in the notice under paragraph  
6       (3)(C)(ii)(III).

7           “(6) CERTIFICATION.—

8           “(A) IN GENERAL.—Except as provided in  
9       this paragraph, the Secretary, in consultation  
10      with the Secretary of Energy, shall establish re-  
11      quirements for certification and compliance pro-  
12      cedures similar to the procedures under section  
13      25B(c)(7).

14          “(B) QUALIFIED INDIVIDUALS.—Individ-  
15      uals qualified to determine compliance shall be  
16      only those individuals who are recognized by an  
17      organization certified by the Secretary for such  
18      purposes.

19          “(C) PROFICIENCY OF QUALIFIED INDIVID-  
20      UALS.—The Secretary shall consult with non-  
21      profit organizations and State agencies with ex-  
22      pertise in energy efficiency calculations and in-  
23      spections to develop proficiency tests and train-  
24      ing programs to qualify individuals to determine  
25      compliance.

1 “(g) TERMINATION.—This section shall not apply  
2 with respect to—

3 “(1) any energy property placed in service after  
4 December 31, 2006, and

5 “(2) any energy efficient commercial building  
6 property expenditures in connection with property—

7 “(A) the plans for which are not certified  
8 under subsection (f)(6) on or before December  
9 31, 2006, and

10 “(B) the construction of which is not com-  
11 pleted on or before December 31, 2008.”.

12 (b) CONFORMING AMENDMENTS.—

13 (1) Section 48(a)(3)(A) of such Code is amend-  
14 ed to read as follows:

15 “(A) which is equipment used to produce,  
16 distribute, or use energy derived from a geo-  
17 thermal deposit (within the meaning of section  
18 613(e)(2)), but only, in the case of electricity  
19 generated by geothermal power, up to (but not  
20 including) the electrical transmission stage,”.

21 (2) Subparagraph (B) of section 168(e)(3) of  
22 such Code is amended—

23 (A) in clause (vi)(I)—

24 (i) by striking “section 48(a)(3)” and  
25 inserting “section 199(d)(1)”, and

1 (ii) by striking “clause (i)” and in-  
2 serting “such subparagraph (A)”, and  
3 (B) in the last sentence, by striking “sec-  
4 tion 48(a)(3)” and inserting “section  
5 199(c)(3)”.

6 (3) Section 1016(a) of such Code is amended  
7 by striking “and” at the end of paragraph (26), by  
8 striking the period at the end of paragraph (27) and  
9 inserting “, and”, and by inserting the following new  
10 paragraph:

11 “(28) for amounts allowed as a deduction under  
12 section 199(a).”.

13 (c) CLERICAL AMENDMENT.—The table of sections  
14 for part VI of subchapter B of chapter 1 of such Code  
15 is amended by adding at the end the following new item:

“Sec. 199. Energy property deduction.”.

16 (d) AUTHORIZATION OF APPROPRIATIONS.—There  
17 are authorized to be appropriated to the Department of  
18 Energy out of amounts not already appropriated such  
19 sums as necessary to carry out this section.

20 (e) EFFECTIVE DATE.—The amendments made by  
21 this section shall apply to taxable years beginning after  
22 December 31, 2000.

1 **SEC. 3. CREDIT FOR CERTAIN NONBUSINESS ENERGY**  
 2 **PROPERTY.**

3 (a) IN GENERAL.—Subpart A of part IV of sub-  
 4 chapter A of chapter 1 of the Internal Revenue Code of  
 5 1986 (relating to nonrefundable personal credits) is  
 6 amended by inserting after section 25A the following new  
 7 section:

8 **“SEC. 25B. NONBUSINESS ENERGY PROPERTY.**

9 “(a) ALLOWANCE OF CREDIT.—In the case of an in-  
 10 dividual, there shall be allowed as a credit against the tax  
 11 imposed by this chapter for the taxable year an amount  
 12 equal to the sum of—

13 “(1) the amount determined under subsection

14 (b) for each qualified energy property of the tax-  
 15 payer placed in service during such taxable year, and

16 “(2) the credit amount specified in the fol-  
 17 lowing table for a new, highly energy-efficient prin-  
 18 cipal residence:

<b>“New, highly energy-efficient principal residence:</b>	<b>Credit amount:</b>
30 percent property .....	\$750
50 percent property .....	\$2,000.

19 “(b) AMOUNT FOR QUALIFIED ENERGY PROP-  
 20 erty.—

21 “(1) RESIDENTIAL ENERGY PROPERTY EX-  
 22 PENDITURES.—Except as provided in paragraph (2),  
 23 the amount determined under this subsection for the

taxable year for each item of qualified energy property shall equal the amount of residential energy property expenditures made by the taxpayer with respect to such property during such taxable year.

“(2) SOLAR HOT WATER PROPERTY; PHOTOVOLTAIC PROPERTY.—

“(A) IN GENERAL.—In the case of solar hot water property and photovoltaic property, the amount determined under this subsection for the taxable year shall equal the amount specified for such property in the following table:

Description of property:	Allowable amount is:
Elected solar hot water property .....	35¢ per each kwh/year of savings.
Photovoltaic property .....	\$1.50 per peak watt.

“(B) ELECTED SOLAR HOT WATER PROPERTY.—In the case of elected solar hot water property, the taxpayer may elect to substitute ‘\$7 per annual Therm of natural gas savings’ for ‘35¢ per each kwh/year of savings’ in the table contained in subparagraph (A).

“(3) MAXIMUM AMOUNT.—In the case of property described in the following table, the amount of expenditures taken into account under paragraph

1       (1) and the amount determined under paragraph (2)  
 2       for the taxable year for each item of qualified energy  
 3       property with respect to a dwelling unit shall not  
 4       exceed the amount specified for such property in  
 5       such table:

<b>“Description of property item:</b>	<b>Maximum allowable credit amount is:</b>
Tier 2 energy-efficient building property (other than a natural gas heat pump).	\$500.
Natural gas heat pump described in section 199(d)(2)(C).	\$1,000.
Tier 1 energy-efficient building property .....	\$ 250.
Solar hot water property .....	\$1,000.
Photovoltaic property .....	\$6,000.

6  
 7       “(c) DEFINITIONS.—For purposes of this section—  
 8       “(1) RESIDENTIAL ENERGY PROPERTY EX-  
 9       PENDITURES.—The term ‘residential energy prop-  
 10      erty expenditures’ means expenditures made by the  
 11      taxpayer for qualified energy property installed on or  
 12      in connection with a dwelling unit which—

13               “(A) is located in the United States, and

14               “(B) is used by the taxpayer as a resi-  
 15      dence.

16      Such term includes expenditures for labor costs  
 17      properly allocable to the onsite preparation, assem-  
 18      bly, or original installation of the property.

19       “(2) QUALIFIED ENERGY PROPERTY.—

1                   “(A) IN GENERAL.—The term ‘qualified  
2                   energy property’ means—

3                   “(i) energy-efficient building property,

4                   “(ii) solar hot water property, and

5                   “(iii) photovoltaic property.

6                   “(B) SWIMMING POOL, ETC., USED AS  
7                   STORAGE MEDIUM; SOLAR PANELS.—For pur-  
8                   poses of this paragraph, the provisions of sub-  
9                   paragraphs (D) and (E) section 199(d)(1) shall  
10                  apply.

11                  “(C) REQUIRED STANDARDS.—Property  
12                  described under subparagraph (A) shall meet  
13                  the performance and quality standards and cer-  
14                  tification standards of paragraphs (1)(D) and  
15                  (2) of section 199(c).

16                  “(3) ENERGY-EFFICIENT BUILDING PROP-  
17                  ERTY.—The term ‘energy-efficient building property’  
18                  has the same meaning given the terms ‘Tier 2 en-  
19                  ergy-efficient property’ and ‘Tier 1 energy-efficient  
20                  property’ in paragraphs (2) and (3) of section  
21                  199(d), respectively.

22                  “(4) SOLAR HOT WATER PROPERTY.—The term  
23                  ‘solar hot water property’ means property which,  
24                  when installed in connection with a structure, uses

1 solar energy for the purpose of providing hot water  
2 for use within such structure.

3 “(5) PHOTOVOLTAIC PROPERTY.—The term  
4 ‘photovoltaic property’ has the same meaning given  
5 such term in section 199(d)(1)(C).

6 “(6) RESIDENCE.—For purposes of paragraph  
7 (1)(B), the term ‘residence’ has the same meaning  
8 as when the term ‘principal residence’ is used in sec-  
9 tion 121, except no ownership requirement shall be  
10 imposed.

11 “(7) HIGHLY ENERGY-EFFICIENT PRINCIPAL  
12 RESIDENCE.—

13 “(A) IN GENERAL.—Property is a highly  
14 energy-efficient principal residence if—

15 “(i) such property is located in the  
16 United States,

17 “(ii) the use of such property com-  
18 mences with the taxpayer and is, at the  
19 time of such use, the principal residence of  
20 the taxpayer, and

21 “(iii) such property is certified before  
22 such use commences as being 50 percent  
23 property or 30 percent property.

24 “(B) 50 OR 30 PERCENT PROPERTY.—

1           “(i) IN GENERAL.—For purposes of  
2           subparagraph (A), property is 50 percent  
3           property or 30 percent property if the pro-  
4           jected heating and cooling energy usage of  
5           such property, measured in terms of aver-  
6           age annual energy cost to taxpayer, is re-  
7           duced by 50 percent, or 30 percent, respec-  
8           tively, in comparison to the energy usage  
9           of the standard design reference house as  
10          determined using the procedures under  
11          clause (iv).

12          “(ii) STANDARD DESIGN REFERENCE  
13          HOUSE.—For purposes of this paragraph,  
14          the term ‘standard design reference house’  
15          means a dwelling which conforms with the  
16          standards of chapter 4 of the 2000 Inter-  
17          national Energy Conservation Code of the  
18          International Code Council and the min-  
19          imum equipment efficiency standards pro-  
20          mulgated by the Department of Energy  
21          under the National Appliance Energy Con-  
22          servation Act.

23          “(iii) ENERGY EFFICIENT REFERENCE  
24          HOUSE.—For purposes of this paragraph,  
25          the term ‘energy efficient reference house’

1 means a design of a dwelling which uses  
2 the same heating fuel type as the proposed  
3 design and which uses minimum standards  
4 equipment, as required by the Department  
5 of Energy under the National Appliance  
6 Energy Conservation Act and which  
7 achieves, on average over fuel type and  
8 house geometry, the required 30 percent or  
9 50 percent reductions in annual energy  
10 cost as calculated using the procedures  
11 under clause (iv).

12 “(iv) PROCEDURES.—

13 “(I) IN GENERAL.—For purposes  
14 of clause (i), energy usage shall be  
15 demonstrated either by a component-  
16 based approach or a performance-  
17 based approach.

18 “(II) COMPONENT APPROACH.—

19 Compliance by the component ap-  
20 proach is achieved when all of the  
21 components of the house comply with  
22 the requirements of prescriptive pack-  
23 ages established by the Secretary of  
24 Energy, in consultation with the Ad-  
25 ministrator of the Environmental Pro-

1           tection Agency, such that they are  
2           equivalent, for the strong majority of  
3           houses which can use this method, to  
4           the results of using the performance-  
5           based approach of subclause (III) to  
6           achieve the required reduction in en-  
7           ergy usage.

8                   “(III) PERFORMANCE-BASED AP-  
9           PROACH.—Performance-based compli-  
10          ance shall be demonstrated in terms  
11          of equivalent or less energy usage  
12          when compared to the energy efficient  
13          reference house of the same heating  
14          fuel type as the taxpayer’s house or  
15          through an alternate method pre-  
16          scribed by the Secretary which yields  
17          equivalent results.

18                   “(IV) COMPUTER SOFTWARE.—  
19          Computer software shall be used in  
20          support of performance-based compli-  
21          ance under subclause (III) and such  
22          software shall meet all of the proce-  
23          dures and methods for calculating en-  
24          ergy savings reductions that are pro-  
25          mulgated by the Secretary of Energy.

1 Such regulations on the specifications  
2 for software and verification protocols  
3 shall be based on the 1998 California  
4 Residential Alternative Calculation  
5 Method Approval Manual.

6 “(V) FUEL PARITY.—In the case  
7 of both the component and the per-  
8 formance-based approaches, and any  
9 software used in support of such ap-  
10 proach, the Secretary shall assure fuel  
11 parity by requiring both the energy ef-  
12 ficient reference house and the pre-  
13 scriptive package under subclause (II)  
14 to employ the same envelope energy  
15 efficiency measures for a house heated  
16 by a gas furnace as for a house heat-  
17 ed by an electric air source heat pump  
18 or by an oil furnace or boiler; and, for  
19 equipment efficiency, to employ elec-  
20 tric, oil, or gas equipment efficiency of  
21 corresponding efficiency improvement.  
22 Such determination of corresponding  
23 efficiency improvement shall be made  
24 on a linear scale between the min-  
25 imum standard equipment efficiency

1 and the best available marketplace  
2 technology efficiency as determined by  
3 the Secretary after considering the in-  
4 formation provided by the Air Condi-  
5 tioning and Refrigeration Institute  
6 (ARI) and the Gas Appliance Manu-  
7 facturers Association (GAMA) guides  
8 for the respective electric, oil, and  
9 natural gas equipment of such type  
10 (such as heating and cooling).

11 “(VI) APPROVAL OF SOFTWARE  
12 SUBMISSIONS.—The Secretary shall  
13 approve software submissions that  
14 comply with the calculation require-  
15 ments of subclause (IV).

16 “(VII) PROCEDURES FOR IN-  
17 SPECTION AND TESTING OF HOMES.—  
18 The Secretary shall ensure that proce-  
19 dures for the inspection and testing  
20 for compliance comply with the cal-  
21 culation requirements under subclause  
22 (IV).

23 “(C) DETERMINATIONS OF COMPLIANCE.—  
24 A determination of compliance made for the  
25 purposes of this paragraph shall be filed with

1 the Secretary within 1 year of the date of such  
2 determination and shall include the TIN of the  
3 certifier, the address of the building in compli-  
4 ance, and the identity of the person for whom  
5 such determination was performed. Determina-  
6 tions of compliance filed with the Secretary  
7 shall be available for inspection by the Sec-  
8 retary of Energy.

9 “(D) COMPLIANCE.—

10 “(i) IN GENERAL.—The Secretary, in  
11 consultation with the Secretary of Energy  
12 shall establish requirements for certifi-  
13 cation and compliance procedures after ex-  
14 amining the requirements for energy con-  
15 sultants and home energy ratings providers  
16 specified by the Mortgage Industry Na-  
17 tional Accreditation Procedures for Home  
18 Energy Rating Systems.

19 “(ii) INDIVIDUALS QUALIFIED TO DE-  
20 TERMINE COMPLIANCE.—Individuals quali-  
21 fied to determine compliance shall be only  
22 those individuals who are recognized by an  
23 organization certified by the Secretary for  
24 such purposes. The Secretary may qualify  
25 a Home Energy Rating Systems Organiza-

tion, a local building code agency, a State or local energy office, a utility, or other organizations which meet the requirements prescribed under this section.

“(E) PRINCIPAL RESIDENCE.—For purposes of this paragraph, the term ‘principal residence’ has the same meaning as when used in section 121, except that the period for which a building is treated as the principal residence of the taxpayer shall also include the 60-day period ending on the 1st day on which it would (but for this subparagraph) first be treated as a principal residence.

“(d) SPECIAL RULES.—For purposes of this section—

“(1) DOLLAR AMOUNTS IN CASE OF JOINT OCCUPANCY.—In the case of any dwelling unit which if jointly occupied and used during any calendar year as a residence by 2 or more individuals the following rules shall apply:

“(A) The amount of the credit allowable under subsection (a) by reason of expenditures made during such calendar year by any of such individuals with respect to such dwelling unit shall be determined by treating all of such indi-

1           viduals as 1 taxpayer whose taxable year is  
2           such calendar year.

3           “(B) There shall be allowable with respect  
4           to such expenditures to each of such individ-  
5           uals, a credit under subsection (a) for the tax-  
6           able year in which such calendar year ends in  
7           an amount which bears the same ratio to the  
8           amount determined under subparagraph (A) as  
9           the amount of such expenditures made by such  
10          individual during such calendar year bears to  
11          the aggregate of such expenditures made by all  
12          of such individuals during such calendar year.

13          “(2) TENANT-STOCKHOLDER IN COOPERATIVE  
14          HOUSING CORPORATION.—In the case of an indi-  
15          vidual who is a tenant-stockholder (as defined in sec-  
16          tion 216) in a cooperative housing corporation (as  
17          defined in such section), such individual shall be  
18          treated as having made his tenant-stockholder’s pro-  
19          portionate share (as defined in section 216(b)(3)) of  
20          any expenditures of such corporation and such credit  
21          shall be allocated pro rata to such individual.

22          “(3) CONDOMINIUMS.—

23                 “(A) IN GENERAL.—In the case of an indi-  
24          vidual who is a member of a condominium man-  
25          agement association with respect to a condo-

minium which he owns, such individual shall be treated as having made his proportionate share of any expenditures of such association and any credit shall be allocated appropriately.

“(B) CONDOMINIUM MANAGEMENT ASSOCIATION.—For purposes of this paragraph, the term ‘condominium management association’ means an organization which meets the requirements of paragraph (1) of section 528(c) (other than subparagraph (E) thereof) with respect to a condominium project substantially all of the units of which are used as residences.

“(4) JOINT OWNERSHIP OF ENERGY ITEMS.—

“(A) IN GENERAL.—Any expenditure otherwise qualifying as a residential energy property expenditure shall not be treated as failing to so qualify merely because such expenditure was made with respect to 2 or more dwelling units.

“(B) LIMITS APPLIED SEPARATELY.—In the case of any expenditure described in subparagraph (A), the amount of the credit allowable under subsection (a) shall (subject to paragraph (1)) be computed separately with respect

1 to the amount of the expenditure made for each  
2 dwelling unit.

3 “(5) ALLOCATION IN CERTAIN CASES.—If less  
4 than 80 percent of the use of an item is for nonbusi-  
5 ness purposes, only that portion of the expenditures  
6 for such item which is properly allocable to use for  
7 nonbusiness purposes shall be taken into account.  
8 For purposes of this paragraph, use for a swimming  
9 pool shall be treated as use which is not for nonbusi-  
10 ness purposes.

11 “(6) COORDINATION WITH OTHER CREDITS.—  
12 Property which would, but for this paragraph, be eli-  
13 gible for credit under more than one provision of  
14 this section shall be eligible only under one such pro-  
15 vision, the provision specified by the taxpayer.

16 “(7) WHEN EXPENDITURE MADE; AMOUNT OF  
17 EXPENDITURE.—

18 “(A) IN GENERAL.—Except as provided in  
19 subparagraph (B), an expenditure with respect  
20 to an item shall be treated as made when the  
21 original installation of the item is completed.

22 “(B) EXPENDITURES PART OF BUILDING  
23 CONSTRUCTION.—In the case of an expenditure  
24 in connection with the construction of a struc-  
25 ture, such expenditure shall be treated as made

1           when the original use of the constructed struc-  
 2           ture by the taxpayer begins.

3           “(8) PROPERTY FINANCED BY SUBSIDIZED EN-  
 4           ERGY FINANCING.—

5                   “(A) REDUCTION OF EXPENDITURES.—

6                           “(i) IN GENERAL.—For purposes of  
 7                           determining the amount of residential en-  
 8                           ergy property expenditures made by any  
 9                           individual with respect to any dwelling  
 10                          unit, there shall not be taken in to account  
 11                          expenditures which are made from sub-  
 12                          sidized energy financing.

13                           “(ii) SUBSIDIZED ENERGY FINANC-  
 14                          ING.—For purposes of clause (i), the term  
 15                          ‘subsidized energy financing’ has the same  
 16                          meaning given such term in section  
 17                          48(a)(4)(C).

18                          “(B) DOLLAR LIMITS REDUCED.—The dol-  
 19                          lar amounts in the table contained in subsection  
 20                          (b)(1) with respect to each property purchased  
 21                          for such dwelling unit for any taxable year of  
 22                          such taxpayer shall be reduced proportionately  
 23                          by an amount equal to the sum of—

24                                   “(i) the amount of the expenditures  
 25                                   made by the taxpayer during such taxable

1                   year with respect to such dwelling unit and  
 2                   not taken into account by reason of sub-  
 3                   paragraph (A), and

4                   “(ii) the amount of any Federal,  
 5                   State, or local grant received by the tax-  
 6                   payer during such taxable year which is  
 7                   used to make residential energy property  
 8                   expenditures with respect to the dwelling  
 9                   unit and is not included in the gross in-  
 10                  come of such taxpayer.

11           “(e) BASIS ADJUSTMENTS.—For purposes of this  
 12 subtitle, if a credit is allowed under this section for any  
 13 expenditure with respect to any property, the increase in  
 14 the basis of such property which would (but for this sub-  
 15 section) result from such expenditure shall be reduced by  
 16 the amount of the credit so allowed.

17           “(f) TERMINATION.—This section shall not apply  
 18 with respect to any taxable years beginning after Decem-  
 19 ber 31, 2006.”.

20           (b) CONFORMING AMENDMENTS.—

21                   (1) Subsection (a) of section 1016 of such Code  
 22                   as amended by section 2(b)(3), is amended by strik-  
 23                   ing “and” at the end of paragraph (27), by striking  
 24                   the period at the end of paragraph (28) and insert-

1 ing “, and”, and by adding at the end the following  
2 new paragraph:

3 “(29) to the extent provided in section 25B(e),  
4 in the case of amounts with respect to which a credit  
5 has been allowed under section 25B.”.

6 (2) The table of sections for subpart A of part  
7 IV of subchapter A of chapter 1 of such Code is  
8 amended by inserting after the item relating to sec-  
9 tion 25A the following new item:

“Sec. 25B. Nonbusiness energy property.”.

10 (c) EFFECTIVE DATE.—The amendments made by  
11 this section shall apply to expenditures made after Decem-  
12 ber 31, 2000.

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